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Kenya

Food Processing Ingredients Sector

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Report Highlights:

Good prospects exist for U.S. food ingredients in Kenya's food processing sector. However, business relationships with U.S. exporters are underdeveloped. This report gives a general overview of Kenya's food processing sector - the market structure, key distribution channels, competition and best product prospects.

Includes PSD Changes: No
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I. Food Processing Sector In Kenya

Kenya's Gross Domestic Product (GDP) stands at about US \$14.6 billion, making it the most developed economy in East Africa with an estimated population of 32.2 million people and per capita income of US \$239. Due to its geographical location and industrial development (small but sophisticated), Kenya is the trade hub for the East and Central African region. Kenya has a relatively well-developed agro-processing industry ranging from processing staple food and fruits, to beverage and tobacco production for both domestic and foreign markets. However, this sector is capital intensive and relies on imported inputs. Food and beverages make up over half of Kenya's exports mainly to the neighboring countries. Traditional suppliers from European Union are the main source of Kenyan imports supplying over 32 percent. The industry faces increasing competition from imported substitutes both in price and quality. The sector is constraint by power shortages and failure, unreliable water supply, deteriorated infrastructure, high interest rates for short and medium term borrowing, excessive government regulation and red tape, to mention a few. Hence, the increased cost of doing business in Kenya.

Kenya's food and beverage processing industry comprises more than 1,232 businesses. Agro processing is progressively the largest manufacturing sub sector accounting for 13 per cent of total manufacturing output (the last full year for which statistics are available). The businesses range from small family-owned businesses to large businesses listed on the Nairobi Stock Exchange and subsidiaries of foreign or multinational businesses. Major multinationals have established operations in Kenya as foreign companies or as joint ventures with Kenyan shareholding to supply the domestic and neighboring markets. These include Nestle, Unilever, Cadbury, Coca Cola, and Wrigley. The companies produce the same high standard of their products that are well known around the world. Most businesses serve very localized markets while a few, medium to large businesses dominant the market on a nationwide basis.

Kenya's food and beverage industry is composed of the following key production sectors: dairy and meat products, bakery goods, grain milling, edible fats and oils, beverages, fruits and vegetables processing, fish processing, wines and spirits.

Major Food and Beverages Industries Output – Selected Sectors

Sector Categories	Number of Establishments	Value of Output* Million US \$, 1998 - 2002				
		1998	1999	2000	2001	2002
Meat and dairy products	133	426	287	178	153	266
Canned vegetables, fish, oils and fat	30	479	556	272	137	365
Grain mill products	281	860	650	663	708	196
Bakery products	178	608	204	181	223	179
Sugar and confectionery	12	246	375	234	203	321
Miscellaneous Foods	521	4363	2797	5266	5332	8428
Beverage and Tobacco	77	322	495	392	433	286

*Output is the value of sales or work done, plus resales , change in stocks of semi-finished and finished goods.

Source: Economic Survey 2003, prepared by Central Bureau of Statistics
Ministry of Planning and National Development.

Advantages and Challenges for US exporters

Advantages, Strengths and Opportunities	Challenges, Shortcomings and Threats
On-going restructuring of the Kenyan economy is enhancing free trade. Its economy is forecast to grow by 3.0 % in 2005.	Long distance to the Kenyan market keeps U.S. shipping costs high, resulting in high product pricing. There are no direct flights or shipping routes to and from the U.S. Kenyan market is price sensitive directly affecting the sector's buyers and their suppliers.
Inadequate supply of critical raw materials (e.g. cereals, sugar, edible oils) used as ingredients for the manufacture of other products (juices, bakery products, refined oils etc.). Most of the producers are operating under installed capacity.	Kenya has no tradition of working with U.S. suppliers in the food industry.
As a member of regional trading blocs (EAC and COMESA), the companies of Kenya's food industry are increasing their export volumes to East African region. As a result, such producers consciously choose quality foodstuffs and additives.	
Existence of a huge relief (humanitarian assistance) market in the East African region that is untapped.	Protectionist attitude by most of the food manufacturers.
New government encouraging value-adding. The private sector's "Buy Kenya, Build Kenya" market campaign has stimulated growth in the manufacturing industry with positive impact on food demand.	Strong competition from traditional suppliers from the European Union. Relative proximity of Europe and South Africa to the East market increases competitive posture vis -a vis U.S.
Penetration of Kenyan dominant retail chain and some outlets in neighboring countries is helping local producers sell in foreign markets.	High tariff rates and bureaucracy involved in clearing imported foodstuffs discourage importers interested in U.S. food products. Regulatory control is expensive and complicated.
U.S. food products are already accepted in the market due to high quality offered and the wide range.	
Competing imports relatively cheap due to inefficiencies in local production.	
Limited technology suited to production of goods for specified export markets. Lack of linkages between research and manufacturing exacerbates this problem.	

II. Road Map For Market Entry**A. Entry Strategy**

New-to-market US exporters need to fully understand the food processors' demand needs and how best to meet their purchasing requirements and specifications. US exporters

wishing to enter the market should work with and build business relationship with established key food manufacturers. Joint ventures are a common feature in the Kenyan business scene and more recently, there is an interest in franchising.

Following considerations should be made when planning to enter the market:

- The price competitiveness of US products compared to other major suppliers. Kenya imports food ingredients, additives and chemicals from all the over the world including UK, South Africa, Malaysia, Indonesia, New Zealand, Singapore, Ireland, India and US.
- The food processors purchasing policy, i.e. whether it buys directly from overseas suppliers or via local importers/agents. It is important to note that some companies prefer to import directly due to quality sensitiveness of the food products manufactured.
- The financial strength of the targeted food processors', geographical spread of their market target, level of demand for imported food ingredients and products, investment(s) into new products and level of interest in using ingredients from the US.

B. Market Structure

The Table below outlines production indices in the food-processing sector. The sector registered marginal decline of 0.7 percent in 2003 after registering a growth of 3.9 percent in 2002. Output in the meat and dairy sector went up by 5.7 percent mainly as a result of an increase in production of beef and dairy products.

Quantum Index of Manufacturing Production, 1999 –2003

1976=100

	1999	2000	2001	2002	2003
Meat and Dairy products	84.3	85.9	86.1	88.6	93.5
Canned: vegetables, fruits, fish, oils and fats	373	392	423	431	450.4
Grain mill products	201	158	143	149	133.6
Bakery products	345	296	300	304	302.4
Sugar and confectionery	237	206	195	224	204.6
Miscellaneous Foods	228	246	262	247	258.6
Food Manufacturing	205	199	201	209	207.1
Beverages	155	166	157	166	189.3

Source: Economic Survey 2004

Data from Central Bureau of Statistics Kenya, indicates that production increased in the following sub-sectors in 2003 compared to the same period in 2002:

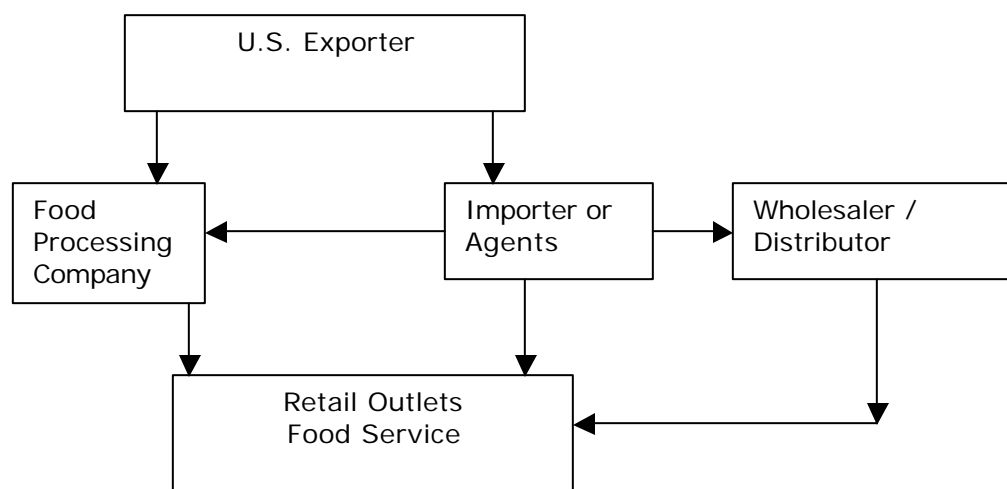
Beef (by 2.0 percent)
Pork (by 8 percent)
Processed chicken (by 3.0 percent)
Processed milk (by 7 million liters), cheese (by 9.1 percent)
Canned vegetables, fish, oils and other fats sub-sector (by 4.5 percent)
Grain milling: maize meal, wheat flour and rice (*declined by 10.3 per cent*)
Sugar and confectionery sub-sector (by 4.7 percent)

Beverage and tobacco sub-sector (by 13 percent)

For the same period, export earnings from food and beverages increased by 2.8 percent while the import value for processed food and beverages for household consumption, grew by 27.4 percent.

C. Distribution Channels

The chart below gives an overview of the usual distribution channel for imported food ingredients from US to food processors.



Large food processing companies prefer to buy food ingredients directly from overseas suppliers instead of local importers/agents because they can:

- Control the quality of product they obtain.
- Directly benefit from cost saving by buying in bulk.
- Obtain a better service after a business relationship is established.

In some cases, companies prefer to purchase from local agents when they require small quantities of food ingredients and importation is not part of their core business.

D. Company Profiles

Despite the opening of the economy, trade information and data is very difficult to come by. Market shares of leading private companies are hardly made public. The table below provides information on some key food processing companies in Kenya who were willing to provide this information and have greatly contributed to the composition of this brief. We thank them all.

Company (Product Types)	Sales (US \$ Mil) 2003	End-Use Channels	Production Location	Procurement Channels
Farmers' Choice (Fresh and processed meats)	18	Hotels, Retail Outlets, Fast Food outlets	1, Nairobi	Local and limited direct importation.
Bio Foods	2	Hotels, Retail	1, Nairobi	Local and limited

(Dairy products, jams and sauces).		Outlets, Airlines, Institutions		direct importation.
Proctor & Allan (Infant foods and breakfast cereals)	N/A	Retail Outlets, Hotels and Restaurants	1, Nairobi	Local and limited direct importation
Nestle (infant foods, beverages, culinary, chocolates and cocoa products, confectioneries)	25	Hotels and restaurants, Institutions - hospitals & schools, vending machines,	1, Nairobi	Local and direct importation of quality sensitive raw materials used.
Jambo Biscuits (Bakery products snack foods)	N/A	Hotels, Retail Outlets,	1, Nairobi	Local and limited direct importation.
Kenya Orchards (Jams, tomato sauces and products marmalades, fruit juices)	1	Hotels, Retail Outlets,	1, Juja -Thika	Local and limited direct importation.
Cirio Delmonte (Fruit Juices)	70	Retail outlets and hotels.	1, Thika	Local and direct importation.
BIDCO (Edible oils and fats)	101	Retail Outlets, Hotels, Restaurants and Institutions.	1, Nairobi (oil refinery) 1, Nakuru (oil extraction)	Local and direct importation.

E. Sector Trends

From a land of monopolies, Kenya has started to move towards becoming a land of competitive companies to face globalization. Until mid-1990's, Kenya was known as the land of monopolies and oligopolies. Price controls was major factor in discouraging new entrants and existing firms to dominate the market. After liberalization (1994/5), Kenya food industry is facing fierce competition from new entrants and freely imported products. Thus, the scenario has changed but key information on market shares still remains closely guarded secrets.

Initially, the sector was developed under the import substitution policy, but now the shift is to export oriented manufacturing as the thrust of Kenya's industrial policy. In support of this policy, the government of Kenya has included food manufacturing in its export promotion programs (manufacturing under bond and export processing zones programs) where manufacturers benefit from duty exempt on imported plant, machinery, raw materials and other imported inputs for use in manufacturing for export.

III. Competition

Kenya's food manufacturing industry faces increased competition from imported substitutes both in price and in quality. Aggressive marketing (e.g. emerging slogans like "Buy Kenya,

Build Kenya”), better quality products, and customer support methods are some of the methods used by the industry to combat the whiplash of liberalization.

Major competition comes from local suppliers of fresh fruits, vegetables, meats, sugar and milk. Among other benefits, food processors gain from reduced stock holding. However, local suppliers are unable to supply specialized items required for specialized products used in meat processing and packaging, ingredients for infant foods, dairy products, confectionery products and culinary.

Domestic production does not meet the industry’s demand for wheat, corn, rice, sugar and edible oils.

There is also competition from other suppliers in the world market as shown in the Table below:

Product	Common Sources	Reasons For Strength of key supply countries
Refined Sugar	Malawi, Sudan, South Africa, Brazil	<ul style="list-style-type: none"> Low-cost suppliers
Full Cream milk Powder	New Zealand, South Africa	<ul style="list-style-type: none"> Majority of the imports come from UK or South Africa due to relative proximity and stable currencies.
Malt Extract	Singapore	
Cocoa Powder	Malaysia	<ul style="list-style-type: none"> Exposure to the market and established supplier trade relationship.
Skimmed milk powder	Ireland	
Nido Bulk	UK, South Africa	
Dicalcium phosphate	Germany	
Cremora Bulk	South Africa	
Hydrogenated fat	Malaysia	
Yoghurt cultures	Denmark, The Netherlands	
Vitamins and minerals	South Africa	
Juice Concentrates	South Africa, UK	
Crude Oil	Malaysia, Singapore, Indonesia	
Stabilizers and Emulsifiers	European Union countries	
Wheat	Argentina, Australia, Pakistan	
Corn	South Africa	
Rice	SE Asian countries	

Multinational food companies present in the market (Nestle, Cadbury, Unilever) command dominant position in both locally produced and food imported products.

IV. Best Products Prospects

This report has been developed from a broad study of Kenya’s food manufacturing sector and not detailed market studies of each segment. As a result, the reader should not construe it as the results of a full and detailed market study into opportunities for U.S. food ingredients.

Category A: Products Present in the market which have good sales potential	Category B: Products Not present in significant quantities but which have good sales potential	Category C: Products not present in significant quantities because they face significant barriers.
Stabilizers Yoghurt Cultures Casings for meat and meat products Spice mixtures Juice concentrates Emulsifiers Food flavorings and coloring Vitamins and minerals Full cream milk powder Cocoa powder Skimmed milk powder Dicalcium phosphate Cremora bulk Malt extract Food grade packaging material Wheat White Corn Rice Refined Sugar Edible oils	Soy protein concentrates and soy food-based ingredients. Protein concentrates Vitamin and mineral premixes All the other products in Category A.	Meat products Poultry Products Skimmed milk powder Full cream milk powder

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